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SUBJECT: KAZAKHSTAN: ECONOMIC AND ENERGY UPDATE, APRIL 16 - MAY 9

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11. SUMMARY: This information is drawn primarily from the  
Kazakhstani local press and has not been verified for accuracy.

- New Refinancing Rate
- Banking Sector News
- Government Procurement Legislation Signed
- Presidents Discuss Customs Union
- Government to Enhance Control Over Anti-Crisis Money
- New Grain Terminal in Caspian Region
- Kazatomprom Agreements and Announcements
- No Pressure to Meet Local Content Requirements
- President Signs Law on Caspian Littoral Gas Pipeline
- KazMunaiGas Cash Deficit

NEW REFINANCING RATE

12. In response to the needs of the financial markets and lower  
inflation, the National Bank has announced that the official  
refinancing rate will be reduced from 9.5 to 9 percent effective May  
12.

BANKING SECTOR NEWS

13. Alliance Bank announced on May 4 that seven international banks  
representing more than 60 of Alliance's creditors were to form a  
coordinating committee to negotiate a debt restructuring and  
recapitalization plan. Creditors have said that they believe the  
support of the Samruk-Kazyna National Welfare Fund and the Financial  
Supervision Agency, along with a preserved bank management  
structure, is vital to the success of these negotiations.

14. Kazakhstan's ATF-UniCredit Bank (ATF) must repay external  
creditors over \$500 million in May 2009. According to ATF CEO  
Alexander Picker, a portion of the debt will be refinanced by  
ATF-UniCredit's parent, the UniCredit Group, within the next three  
months. Additional liabilities, including \$200 million bonds, are  
due in the fall of 2009, which ATF expects to repay without external

assistance.

15. Lariba Bank has successfully completed re-registration under a new name, AsiaCredit Bank. The bank operates in three cities: Astana, Almaty and Atyrau. According to the Interfax Center of Economic Analysis, Lariba Bank was ranked 24th among Kazakhstani banks in the first half of 2008.

#### GOVERNMENT PROCUREMENT LEGISLATION SIGNED

16. On May 5, President Nazarbayev signed amendments to the Law on Government Procurement which are designed to improve both transparency and efficiency in the government procurement process. The legislation encourages the development of electronic purchases of goods and services, simplifies and shortens procurement procedures, and eliminates legal norms seen as potential risks for corruption.

#### PRESIDENTS DISCUSS CUSTOMS UNION

17. During a May 4 telephone conversation, President Nazarbayev and Russian President Medvedev discussed the launch of the proposed Russia-Belarus-Kazakhstan Customs Union. According to the presidential press service, the two leaders "confirmed their mutual aspiration to launch the customs union as soon as possible. They agreed to establish tight control over solving practical issues which are aimed at implementing this most important integration task." Nazarbayev and Medvedev also reportedly agreed to further coordinate Russia and Kazakhstan's accession to the WTO.

#### GOVERNMENT TO ENHANCE CONTROL OVER ANTI-CRISIS FUNDS

18. The Accounting Committee and the Financial Supervision Agency (FSA) signed a Memorandum of Cooperation to jointly monitor the expenditure of funds designated for the government's program to deal

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with the economic crisis. Joint oversight will include close monitoring of the financial activities of state-owned corporations, commercial banks, and other agencies participating in the program. (NOTE: The Accounting Committee is the lead government agency for state fiscal control and reports directly to the President. END NOTE.)

#### NEW GRAIN TERMINAL IN CASPIAN REGION

19. According to the President of the National Agricultural Credit Corporation, Askarbek Karazhigitov, Kazakhstan plans to build a Caspian grain terminal next year that will boost grain exports by 1.5 million tons a year. The project is a part of Kazakhstan's effort to secure a larger share of the global grain market by exporting as much as 9 million tons a year. The new \$46 million terminal would connect Kazakhstan's Aktau port with southern export destinations such as Iran and Afghanistan. Karazhigitov added that there is also a plan to build a new grain terminal in Iran by the end of 2009, which is expected to further enhance Kazakhstan's export capacities by 700,000 tons.

#### KAZATOMPROM AGREEMENTS AND ANNOUNCEMENTS

110. On April 29, Kazakhstan's national atomic company Kazatomprom (KAP) signed a long-term 2009-2020 agreement with the China Guangdong Nuclear Power Company (CGNPC) to supply China with 24,200 tons of uranium from the Irkol field in Kyzylorda oblast and the Semizbai field in Central Kazakhstan, both of which are operated by a joint venture of KAP and CGNPC. KAP and CGNPC also signed a memorandum to establish a new joint venture to construct nuclear power plants in China.

111. On April 26, the Kyzylkum joint venture of KAP (30 percent ownership stake), Uranium One (30 percent), and a consortium of Japanese companies led by the Tokyo Electric Power Company (40 percent), opened the Kharasan-1 mine in Kyzylorda oblast. The mine has an annual design capacity of 3,000 tons of uranium. Beginning in 2010, Japan will receive 600 tons of uranium a year. Japan will also import 1,400 tons of uranium from another project, Baiken-U, a

joint venture between KAP, Toshiba, and the Tokyo Electric Power Company consortium.

¶12. On April 25, KAP President Mukhat Dzhakishev told reporters that the company has postponed construction of a sulfuric acid plant in Kyzylorda oblast. The plant was expected to have a design capacity of 500,000 tons per year, which would be supplied to the Kharasan-1 mine. According to Dzhakishev, the economic crisis has reduced demand for sulfuric acid and created excess supply on the market. He said that KAP would resume plans to build the sulfuric acid plant once demand picks up.

#### NO PRESSURE TO MEET LOCAL CONTENT REQUIREMENTS

¶13. In a May 8 interview with newspaper "Liter," Deputy Prime Minister Serik Akhmetov insisted that no administrative pressure would be exerted on foreign investors to make them increase the amount of Kazakhstani content in the procurement of goods and services. According to Akhmetov, 503 of 901 mineral resource exploration and development contracts do not contain any clauses on local content. "No contracts will be unilaterally amended to mandate greater local content," he said. "The mutual decision to revise some articles in existing contracts to meet local content requirements should not be taken as a sign of government pressure," he explained.

#### PRESIDENT SIGNS LAW ON CASPIAN LITTORAL GAS PIPELINE

¶14. On May 14, Kazakhstan's President Nazarbayev signed a law ratifying the agreement between the governments of Kazakhstan, Russia and Turkmenistan to construct the Caspian littoral (Priekspiskiy) gas pipeline. Russia, Kazakhstan, and Turkmenistan signed the agreement in December 2007. It specifies liabilities and

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obligations for the construction of the gas pipeline, which will carry up to 20 billion cubic meters (bcm) of Turkmen and Kazakhstani gas to the Kazakhstani-Russian border, including up to 10 bcm of Turkmen gas and up to 10 bcm of Kazakhstani gas. The project is designed to increase throughput capacity of the Central Asia Center (CAC)-III gas pipeline running along the eastern coast of the Caspian Sea by upgrading the existing pipeline system and building a new pipeline. These gas transportation systems will be hooked up to CAC-IV at Beineu in Kazakhstan and Alexandrov Gai, a Russian village near the border. The total length of the pipeline will be 1600 km, 10 km out of which will be built by Russia and the rest by Kazakhstan and Turkmenistan in equal portions. On April 9, Gazprom CEO Alexei Miller met in Astana with President Nazarbayev and said that the throughput capacity of the pipeline might be increased by 20 bcm to a total of 40 bcm. The Caspian littoral pipeline is an extension and upgrade of the existing CAC pipeline network, which handles Kazakhstan's annual exports of approximately 8-10 bcm. The purpose of the pipeline is not to send additional volumes in a new direction. This "new" pipeline is not much more than an affirmation of the status quo, i.e., Kazakhstan will continue to export 8-10 bcm of gas to Russia annually.

#### KAZMUNAIGAS CASH DEFICIT

¶15. On May 3, "Atyraunews.com" reported that national oil company KazMunaiGas (KMG) lacks the \$5-7 billion it needs to fund ongoing projects and acquire new assets. In February 2008, Minister of Energy and Mineral Resources Sauat Mynbayev asked the government to provide \$3.8 billion for the Beineu-Bozoy-Akbulak gas pipeline because KMG did not have the ability to finance the project independently. "KMG is already shaking because of their intensive acquisitions of various assets," he said. In January, KMG President Kaigeldy Kabyldin said that Kazakhstan would need to pay 208 billion tenge (\$1.39 billion) to meet its 2009 obligations for the Kashagan project. The Director of KMG's Information Policy Department, Galym Tumabayev, said then that KMG would answer this cash call by drawing on its \$3 billion Eurobond issue from June 2008. Other large and expensive projects will need funding, however. For example, the Kazakhstan Caspian Transportation System project will cost \$1.4 billion just for the Yeskene-Kuryk oil pipeline and the Kuryk terminal.

¶16. On April 30, KMG acquired British Petroleum's stake in the joint venture Kazakhstan Pipeline Ventures (KPV), which held a 1.75% share in the Caspian Pipeline Consortium (CPC). KMG agreed to pay \$250 million over several installments for BP's share in KPV. KPV holds the right to ship 5 million tons per year of crude through CPC, an amount which will increase to 10.5 million tons per year after CPC's expected expansion.

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